

# Valuing the Social Mission Activities of Blue Cross Blue Shield of Michigan

Prepared By:  
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### **A Note on the Genesis of This Report**

This report is a product of Avalere Health, LLC, an independent health policy research and advisory services firm based in Washington, DC. Blue Cross Blue Shield of Michigan commissioned Avalere to prepare the report in December 2007. Avalere Health's 100-plus professionals serve a range of commercial, non-profit and governmental customers with interests in improving the health system.

The lead author is Bob Atlas, Senior Vice President of Avalere Health since November 2005. Mr. Atlas is a member of Avalere's executive leadership team, with responsibility for all of the company's advisory services. He has three decades of experience in strategy, policy analysis, program development, and performance improvement for health care providers, payers, and policymakers.

In late 2005 and early 2006, Mr. Atlas was the lead analyst in an initial study of Blue Cross Blue Shield of Michigan's social mission spending. That study was issued by the Altarum Institute of Ann Arbor, Michigan, which Mr. Atlas was serving as a consultant. This report updates that earlier study.

Earlier in 2005, Mr. Atlas led a study of social mission spending of the Blue Cross and Blue Shield plans in Pennsylvania, commissioned by the Pennsylvania state legislature. That report was produced by The Lewin Group of Falls Church, Virginia, to which Mr. Atlas was consulting at the time and where he served as President until January 2004. The report done for Pennsylvania underpins the analysis contained in this document.

## Executive Summary

Blue Cross Blue Shield of Michigan (BCBSM) is the only health plan in Michigan regulated as a nonprofit health care corporation under Public Act 350. PA 350 exempts BCBSM from paying state and local taxes, but also requires the plan to operate in a way that will "secure for all the people of this state...the opportunity for access to health care services at a fair and reasonable price."

To meet these requirements, BCBSM performs various functions that benefit the community, its so-called "social mission" functions. BCBSM commissioned Avalere Health to measure the value of these social mission functions in dollar terms. Findings of our analysis and assessment of BCBSM's fulfillment of its social mission obligations are summarized below.

### The Unique Requirements Placed on BCBSM

Under PA 350, BCBSM faces two significant demands that do not apply to any other health insurer in the state. The first stipulation is that BCBSM must "guarantee issue and renew" its three individual health insurance products to all Michigan residents, and BCBSM cannot decline to renew a policy once it has been issued. BCBSM, however, is the only insurer in the state that must guarantee issue individual products year-round and, as such, BCBSM operates as the **state's insurer of last resort**.

The second provision under PA 350 that is unique to BCBSM, is that the Insurance Commissioner is permitted to mandate that BCBSM charge subscribers an amount in addition to what their premium would otherwise be in order to **subsidize two of the individual products**. This extra charge is based on a percentage of premium.

### Valuing BCBSM's Social Mission Spending

No rules exist for valuing nonprofit insurers' social mission activities. The best available framework emerged in a study done in 2005 for the Pennsylvania legislature to assess the social mission activities of that state's four Blue Cross and Blue Shield plans.<sup>1</sup> Avalere Health further validated the use of this framework in interviews with two leading experts on nonprofit health care organizations' community benefits.

The main areas of BCBSM's social mission funding, under the Pennsylvania framework, are defined and measured as follows (dollar values are for 2007):

- **Direct Charitable Giving - \$5.0 million.** BCBSM's direct charitable giving included funding for free care clinics and community health initiatives and the value of donations through corporate/volunteer giving programs.
- **Knowledge Dissemination and Research - \$17.2 million.** These activities included BCBSM's support for the Michigan Quality Improvement Consortium, Cardiovascular Consortium, the Michigan Surgical Quality Improvement Program and more. BCBSM's outlays for health care education, as well as its Hospital Pay-for-Performance program, are also counted in this category.

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<sup>1</sup> The Pennsylvania House of Representatives tasked the Legislative Budget and Finance Committee to "examine options and alternatives available to the Commonwealth with respect to the regulation, oversight and disposition of reserves and surpluses of health insurers."

- **Participation in Public Programs - \$15.5 million.** This is the amount of premium shortfalls BCBSM incurs in MICHild, the state children's health insurance program. It represents a definitive commitment by BCBSM to subsidize MICHild.
- **Safety Net Coverage - At least \$353 million.** BCBSM's losses on certain products, Medicare Supplement and Group Conversion subsidies, and outlays related to being Michigan's insurer of last resort, total \$275.5 million or more. In addition, BCBSM's payments to Michigan hospitals toward their costs of uncompensated care are valued for social mission measurement purposes at \$77.5 million.

In sum, using our conservative framework, we estimate that BCBSM's total social mission spending in 2007 was at least \$391 million. The true amount is likely higher given the hard-to-quantify value of BCBSM's insurer of last resort status and associated business costs.

### **Benchmarking BCBSM's Overall Social Mission Spending**

Even though there is no specific level of spending that BCBSM is required to deliver, and against which its level of social mission spending can be evaluated, we identified two benchmarks against which to judge BCBSM's fulfillment of its social mission obligation.

We compared the BCBSM spending to that of the largest Blues plan in Pennsylvania, Highmark. Highmark's social mission obligation is spelled out by that state's Community Health Reinvestment Agreement and a statutory mandate pertaining to insurer of last resort. On a per capita basis, BCBSM spends 37 percent more than Highmark.

We also compared BCBSM's social mission spending to the state and local tax exemption granted by PA 350. By this measure, Michigan residents actually receive significant extra benefits as a result of BCBSM's unique status under Michigan law. BCBSM estimates that the tax exemption saved the company \$80 million in 2007. Our estimate of BCBSM's social mission spending, \$391 million (minimum) is 4.88 times this value.

### **Conclusion**

We believe BCBSM is meeting its social mission obligations in terms of the level of spending. Analysis of 2007 social mission outlays shows that BCBSM is, in fact, surpassing the amount of social mission spending expected under PA 350.